

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE DOCKET SECTION

Postal Rate and Fee Changes, 1997)

Docket No. R97-1

OFFICE OF THE CONSUMER ADVOCATE COMMENTS IN RESPONSE TO ORDER NO. 1215 (July 30, 1998)

In their decision of June 30, 1998, the Governors of the Postal Service returned three matters to the Commission for reconsideration: 1) an anomalous relationship among the rates for presorted, automation, Within County Periodicals; 2) whether the Commission should continue to recommend the Standard Mail, Parcel Post, Destination Delivery Unit ("DDU") rate of \$1.10, which was "set" (or "hard coded"), as opposed to issuing from a methodology applied to all other cells of parcel post; 3) the advantages of maintaining separate rate schedules for Library Mail and Special Standard Mail to avoid confusion about whether presort rates would now be available to Library Mail and to preserve the distinctive character of Library Mail so that it could remain a viable subclass in the future. OCA wishes to comment on these three issues.

First, OCA agrees with the Governors and the Commission that the presort automation rates for letter- and flat-shaped Periodicals should be re-examined and re-configured so that more finely presorted pieces would pay lower rates than the less finely presorted pieces. As recommended, the most highly presorted automation-rate

Periodicals pay the highest rates, while the least presorted pieces pay the lowest rate. This rate structure violates one of the Commission's articulated goals in fashioning rates for the Periodicals class: "The Commission recommends the 4-tier proposal [i.e., four presort tiers consisting of basic presort, 3-digit, 5-digit, and carrier route] since it appears to allow rates to follow costs more closely and therefore *is likely to send improved signals to mailers.*"¹ As presently structured, the presort rates send signals that are exactly opposite those intended. All entities with an interest in this matter seem to agree that correction of the anomaly is necessary.²

The second matter returned to the Commission for reconsideration is the rate recommended for DDU parcel post. Questions concerning the development of this rate were first raised by a Motion by United Parcel Service ("UPS") for Amendment of Recommended Decision to Correct Rate Recommendation for DDU Parcel Post, June 5, 1998. UPS pointed out that the PRC workpaper—PRC-LR-15—that presents the Commission's methodology for developing parcel post rates "hard codes" the 2-pound DDU rate of \$1.10. The word "SET" is marked for this cell of the workpaper.³ In contrast, all other cells of parcel post are derived by application of uniform per piece, and varying transportation, discounts. At the very least, the Commission should state

¹ PRC Op. R97-1, para. 5781 (emphasis added).

² See letter of Margaret P. Crenshaw, Secretary, Postal Rate Commission to Sam Winters, Chairman, Board of Governors, May 20, 1998; Decision of the Governors, Docket No. R97-1, June 30, 1998, at 15; and Comments filed by the National Newspaper Association, July 20, 1998: "NNA believes it is the only party in this docket that has had significant interest in the within county rates. . . . NNA infers from the Commission's May 20, 1998, letter to the Governors that the Commission believes the prebarcoded mail discounts should be recalculated to reflect degrees of presortation. We agree."

³ Sheet "DSCF," cells F489-G489.

clearly its intention whether it continues to recommend the rate of \$1.10 or whether re-calculation of many of the rate cells of parcel post must be performed as a consequence of a decision to change the derivation of the 2-pound DDU rate. UPS points out that application to the 2-pound DDU rate cell of the same methodology that was used for other rate cells results in a rate of \$1.29.

The Commission expresses concern in Order No. 1213 that:

An error in the analysis which causes the Commission to recommend a rate which would not otherwise have been appropriate, cannot be so easily corrected. Whether the error leads to a rate that is too high or too low, it may be necessary to adjust other rates to balance relative contributions or avoid rate anomalies.

.....

[W]hile there was no intention to achieve this specific, recommended rate relationship, this rate was not recommended inadvertently. Commission estimates of test year revenues, volumes, and costs, were developed using this rate, and correcting it would require recalculating and rebalancing the factors on which rates are based.

One of the important considerations in resolving whether re-derivation of the 2-pound DDU rate is necessary is whether this rate covers the costs of providing service to 2-pound DDU parcels. An issue closely related to this one was addressed in PRC Op. MC86-1 (Request for a Destination-BMC Parcel Post Classification and Rate Changes, Experiment). Several parties (OCA prominent among them) had challenged the requested DBMC rates as below cost. The Commission rejected the proposed DBMC classification and accompanying rates "because . . . they would not cover costs." *Id.*, para. 218. In resolving the issue whether section 3622(b)(3) of title 39 ("the requirement that each class of mail or type of mail service bear the direct and indirect

postal costs attributable to that class or type”) is applicable to a subset of cells of a subclass, the Commission articulated these ratemaking principles:⁴

Although . . . cost tracing within a subclass is not specifically required by section (b)(3), the Commission has traditionally followed a policy of using it in order to develop rates within subclasses which are appropriate under economic theory. In general, prices should be set by following underlying cost occurrence as closely as practicable. . . . The Commission has found that cost tracing within rate schedules assists the goal of fair competition for the pertinent classes. . . . Rate advantages in a competitive environment should reflect the costs for providing the particular service.

Although section (b)(3) is implemented on a subclass basis, we believe that its strictures should be given a great deal of consideration in setting rates across a schedule. Reducing rates with the result that they would demonstrably not cover costs in affected cells is the antithesis of the intent of section (b)(3)—regardless of the cost coverage of the subclass as a whole.

To be sure, this policy is not strictly apposite to the instant reconsideration since only one cell must be reviewed.⁵ By contrast, in Docket No. MC86-1, 70 out of 102 DBMC cells failed to cover costs.⁶ It is OCA's position that it may be appropriate to continue to recommend the 2-pound rate of \$1.10, but that the issue of cost recovery should be discussed and the Commission's position clearly stated.

The Governors appear to accept the remedy designed by the Commission for Library mailers that all Library Mail, even that mail formerly ineligible for the Special subclass, be made eligible, through an addition to the DMCS, to pay Special Standard

⁴ PRC Op. MC86-1, paras. 215-217 (citations omitted).

⁵ Although the Postal Service points out in its Response to the Motion of UPS for Amendment of Recommended Decision, June 15, 1998, that the 2-pound intra-BMC parcel post rate was also “set.” This rate, however, is higher than one that would be derived from the Commission's rate design methodology. Consequently, it is unlikely that the recommended rate would exhibit a negative cost coverage.

⁶ PRC Op. MC86-1, para. 336.

Mail rates.⁷ Unstable cost data, especially from IOCS,⁸ render the Library Mail attributable costs estimated by witness Adra “highly questionable.”⁹

However, the Governors identify several, potential legal and administrative problems arising from the Commission’s method of merging Library Mail and Special Standard Mail into the same rate schedule. First, the Governors express concern that “the Commission . . . is declining to recommend Library rates,” possibly in violation of 39 U.S.C. §3622(b).¹⁰ Second, the shared rate schedule for both subclasses seems to afford access by Library mailers to Special Standard Mail presort discounts, a possibility never contemplated or addressed during litigation.¹¹ Third, “blurring the distinction between the two subclasses” could make the separate collection of Library Mail data impossible.¹²

The Commission shares the Governors’ concern about the risk of extinguishing Library Mail as a separate subclass. Indeed, the Commission states in its opinion that:¹³

The Commission’s recommended solution should not be considered a proposal to abolish Library Mail as a recognized mail classification. In the Commission’s opinion, because of the legislatively-favored status of Library Mail, abolition is beyond the Commission’s authority to recommend and the Board of Governors’ power to order.

⁷ Decision of the Governors, Docket No. R97-1, June 30, 1998, at 12.

⁸ Tr. 12/6585 (Response of witness Degen to P.O. Information Request No. 2, question 1).

⁹ PRC Op. R97-1, para. 5743.

¹⁰ Governors’ Decision R97-1 at 12.

¹¹ *Id.*

¹² *Id.* at 13.

¹³ PRC Op. R97-1, para. 5745.

The Commission underscores that it views this extension of Special rates to Library Mail as an “interim” measure only.

OCA is concerned that the Commission's decision to extend Special Standard rates to Library Mail will create the “*de facto* merger” OCA witness Collins warned against in her testimony¹⁴—if Library Mail rates are equal to Special Standard rates, then a large number of Library mailers may switch to the Special Standard Mail subclass if they find it more convenient to use Special Standard. The only effective way to ensure a viable Library Mail subclass is to recommend rates that are somewhat lower than the rates of Special Standard Mail. Furthermore, “the markup for Library rates is to be set at half the markup recommended for Special Standard rate mail.”¹⁵ Witness Collins' proposal was to use the attributable costs of Special Standard Mail as a proxy for the attributable costs of Library Mail.¹⁶ She would then have applied a markup that was half of that proposed by witness Adra for Special Standard Mail, as required by the Revenue Foregone Reform Act (RFRA).¹⁷

The Commission has not explicitly fulfilled the RFRA requirement. Owing to the presence of a bulk rate category component in Special Standard Mail which is not part

¹⁴ Tr. 24/13094 (OCA-T-700 at 11).

¹⁵ PRC Op. R97-1, para. 5726.

¹⁶ Tr. 24/13093 (OCA-T-700 at 10).

¹⁷ 39 U.S.C. §(a)(3)(B):

The applicable percentage for any class of mail or kind of mailer referred to in subparagraph (A) shall be the product derived by multiplying—

- (i) the percentage which, for the most closely corresponding regular-rate category, the institutional-costs contribution for such category represents relative to the estimated costs attributable to such category of mail, times
- (ii) (VI) one-half, for any fiscal year after fiscal year 1998.

of the Library Mail subclass and an “uncertain assumption of resemblance” of costs between these two subclasses, the Commission determined that it could not use Special Standard Mail costs “as a proxy with a reasonable level of assurance.”¹⁸ Rather, the Commission chose to provide a “bridge” between Library Mail and Special Standard Mail. The Commission’s solution—combining the rate schedules of Special and Library Mail—created the three legal/administrative problems identified by the Governors.

The Governors’ remedy, establishment of a discrete rate schedule for Library Mail, with rates equal to single-piece Special rates,¹⁹ seems to solve two of the three problems identified in their Decision—1) Library rates would be explicitly recommended, and 2) the limited availability of presort discounts to Special Standard mailers, not Library mailers, would be clarified. However, the RFRA requirement remains unmet, and the preservation of Library Mail as a distinct subclass is still in jeopardy if the rates of Special Standard and Library Mail are the same.

The Commission’s decision to extend Special Standard rates to all Library mailers accords greater protection to Library mailers than does the Postal Service’s initial proposal. The Commission recommends that the cost coverage of Special Standard Mail remain at the same level recommended in Docket No. R94-1.²⁰ This cost coverage is substantially below that proposed by the Postal Service, i.e., 106 percent

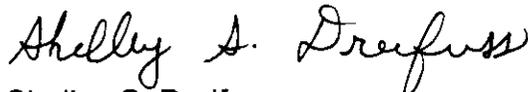
¹⁸ PRC Op. R97-1, para. 5742.

¹⁹ *Id.*

²⁰ *Id.*, para. 5755.

versus 137 percent,²¹ and produces a 9.6 percent average decrease in the rates for Special Standard Mail.²² In fact, the first-pound rate of \$1.13 is the same as that proposed by OCA witness Collins.²³ OCA's preference is to use Special Standard attributable costs as a proxy for Library Mail's attributable costs (and apply half of the markup to Library Mail as is applied to Special rate). Only a rate differential favoring Library Mail will have a realistic chance of preserving Library Mail as a viable subclass.

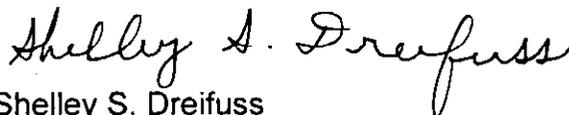
Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.



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²¹ Compare id. with USPS-T-30 at 39.

²² Id., para. 5748.

²³ Compare id. at para. 5756 with OCA-T-700 at 14.